



UNITED STATES
DEPARTMENT OF
AGRICULTURE

RURAL
DEVELOPMENT

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Rural Development Texas AN No. 541 (3550)

February 8, 2001

SUBJECT: Evaluating Credit History for Single Family Housing (SFH) Applicants

TO: All Offices
Rural Development, Texas

PURPOSE/INTENDED OUTCOME: The purpose of this Texas Administrative Notice (AN) is to clarify and guide Rural Development employees in reviewing Single Family Housing (SFH) applicants' credit histories in connection with making eligibility determinations.

COMPARISON WITH PREVIOUS AN: This AN replaces Rural Development Texas AN No. 523 which expired on November 30, 2000.

IMPLEMENTATION RESPONSIBILITIES: The actions and guidelines listed in this AN will be followed by all Rural Development employees upon receipt and review of SFH applications.

As indicated in HB-1 3550, Chapter 4, paragraph 4.10, an applicant's credit history is evaluated two times during the application process – first, through preliminary credit checks conducted when a complete application has been submitted, and later, through third-party verifications conducted when the applicant is selected for processing.

To be eligible for a Section 502 loan, applicants must demonstrate that they are reasonably able and willing to repay a Section 502 loan. An applicant's credit record does not have to be perfect for an applicant to be eligible for a loan. A few instances of credit problems can be acceptable if an applicant's overall credit record demonstrates an ability and willingness to repay obligations.

Rural Development employees must investigate all major indicators of unacceptable credit to determine whether they are accurate, and whether there is an acceptable explanation for the problem that might justify an exception. An application will not be rejected without first obtaining a written explanation from the applicant of the reasons for the adverse credit. Failure to understand the nature of a credit problem could cause the agency to reject an application on the basis of inaccurate or incomplete information. If the applicant refuses or fails to provide a written explanation, the file is to be documented, the application denied and the applicant given formal notification of the adverse action.

EXPIRATION DATE: January 31, 2002

FILING INSTRUCTIONS: SFH 3550
Field Office Handbook State Supplements
Rural Development Texas AN No. 541 (3550)

HB-1 3550, Exhibit 4.3 lists examples of indicators of unacceptable credit. It points out events or incidences which may indicate that the applicant is not willing to meet obligations as they become due, but are not meant as "iron-clad" reasons to reject applications.

There may be justifiable reasons for the existence of the adverse ratings. When analyzing the borrower's credit record, it is the overall pattern of credit behavior that must be examined rather than isolated occurrences of unsatisfactory or slow payments. A period of financial difficulty in the past does not necessarily make the risk unacceptable if a good payment record has been maintained since. When delinquent accounts are revealed, Rural Development must determine whether the late payments were due to a disregard for, or an inability to manage financial obligations, or to factors beyond the control of the borrower including delayed mail or disputes with creditors.

While minor derogatory information occurring two or more years in the past does not require explanation, major indications of derogatory credit, including judgments and collections, and any other recent credit problems, require sufficient written explanation from the borrower. The borrower's explanation must specifically address the problem and be consistent with the credit information in the file.

If information on the applicant's Residential Mortgage Credit Report (RMCR) has adverse accounts in excess of the items listed in Exhibit 4-3, the applicant will be requested to provide a written explanation (along with any supporting documentation) which details the reasons for the adverse ratings. The loan approval official will review the written explanation to determine if the reasons meet the requirements of HB-1 3550, Chapter 4, paragraph 4.15. If the reasons meet these requirements, i.e. the circumstances that caused the credit problems were temporary in nature and beyond the applicant's control, an exception will be made.

The basic hierarchy of credit evaluation is the manner of payments made on previous housing expenses, including utilities, followed by the payment history of installment debts, then revolving accounts. Generally, an individual with no late housing or installment debt payments should be considered as having an acceptable credit history unless there is major derogatory credit on their revolving accounts. Each Rural Development Manager (RDM) will review applications rejected due to credit history. The review will include the finding that written explanations were obtained and that exceptions could not be made as authorized by HB-1 3550, Chapter 4.

Please contact Scooter Brockette or Leon Carey in the Single Family Housing Section if you have any questions.

/s/Richard L. Perryman

STEVEN A. CARRIKER
State Director